# AMERICA'S ABILITY TO MAKE FOREIGN INVESTMENTS

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Looking forward to the period following the war, there is every reason to believe that a great demand for capital will exist the world over. Normal development is now in check, in the countries at war and also in the neutral countries, but the forces that make for progress, although under restraint, are gathering weight and as soon as the war is over will make themselves felt. Population is increasing even in the warring countries. The stress of war conditions is favorable to the development of initiative and enterprise. When the war is over, there will be much lost time to be made up, and much planning to increase the productiveness of industry in all countries.

What part will the United States be able to play in this situation? We know that in the past it has been a borrowing country, a field of investment for the old countries of Europe. No other country has grown so rapidly in population, and this growth, while stimulated by the demands of capital striving to take advantage of the opportunities present here, has in turn created an enormous demand for capital to build the cities and the railways, and provide the accommodations and facilities required by a population of 100,000,000 people. The result has been that nowhere else have the rewards of capital been so great as here, and there has been little inducement for American investors to go away from home.

This outstanding fact of our history naturally prompts the question whether after the war America will have any capital to spare for investment in other countries, under the normal conditions which prevail in times of peace.

## Growth of Wealth in the United States

It is evident that this question is to be considered only as calling for a comparison between the inducements that will be offered by foreign opportunities and those which will be open at home. The

United States is undoubtedly accumulating wealth and increasing its means of producing wealth at a rate never equalled by any other country. The Census Bureau in its volumes upon *Wealth, Debt and Taxation*, has estimated the total wealth of this country in 1900 at $88,517,306,775, in 1904 at $107,104,193,410, and in 1912 at $187,739,071,090. The increase in the eight years from 1904 to 1912 was about $80,000,000,000 which alone is approximately equal to the total estimated wealth of either Germany or Great Britain. It is true that this includes real estate values, but the estimates of the wealth of the other countries also include real estate. Furthermore, an increase in the market value of land, while indeed not to be reckoned as a productive factor in the same sense as an increase in primary horse-power, nevertheless must be taken account of as increasing the wealth of the individual owners. It gives them the position of capitalists, places them in command of purchasing power, and makes them a more important factor in the financial world. A large part of the land values of the country are actually used as the basis of credit, and as the land becomes more valuable the indebtedness upon it increases, showing that this increment is not idle value but is put to effective use. The man who owns a valuable piece of ground can, by virtue of its value, buy materials, hire labor, erect buildings upon it and make it productive.

Moreover, the census figures for the value of real estate include all of the values that have been added to the bare land in buildings and improvements of every kind. The new buildings erected in cities where permits are required by the authorities have involved, in recent years, expenditures amounting to about $1,000,000,000 per year, as shown by compilations made by the *New York Commercial and Financial Chronicle*. These include returns for about 250 cities or an average of about 5 for each state. Besides these, there are the buildings erected in other cities, towns and rural communities and upon farms, and the expenditures upon land to make it more productive, such as clearing, draining, fencing, road-building, cultivation of orchards, etc.

The increased value assigned to "real estate" for the eight years 1904–1912 was $48,334,920,444, or about $6,000,000,000 per year. We may estimate that one-third of this, or $2,000,000,000, would represent outlays for buildings and improvements. Upon farms the improvements are relatively less, but in cities the proportion

is greater than this. In the four years from 1900 to 1904 the increase in the value of all real estate was found to be \$9,803,844,463, or an average gain of \$2,450,000,000 per year.

Outside of all property classed as "real estate" by the Census authorities, the country's gain in wealth from 1900 to 1904 was \$8,783,042,172 and from 1904 to 1912, it was \$32,300,957,236. The average per annum for the first period was \$2,195,760,543, and for the second period, \$4,037,619,654, certainly a remarkable showing. If the estimate of one third be accepted as representing the proportion of physical betterments in the total gain in real estate values, the aggregate of new capital created would be over \$6,000,000,000 per annum for the period. This is net accumulation, as shown by the Census Bureau's calculation of values existing at the dates named, and not counting the increment upon bare land.

### THIS INCREASE IS BEING ACCELERATED

As these figures represent the average gain per annum of the period 1904–1912, and as such gains are cumulative, the profits of one year increasing the capital of subsequent years, it follows that the gains of the year 1912 were probably considerably more than the above averages and that by this time the annual gains are more than in 1912. There are no general census figures upon wealth later than these for 1912, but a census of manufactures was taken as of December 31, 1914, the results of which have been in part made public. It shows an increase of capital invested in manufactures during the five year period from 1909 to 1914 of 23.7 per cent, which is a lower percentage of increase than was made from 1904 to 1909, but calculated, of course, upon a higher base. By the end of 1916 two years more of progress will have elapsed, and the increase of productive wealth in these two years no doubt has been greater than in any other two years of our history. It is safe to say that the net gains of wealth in the United States are now normally not less than \$7,500,000,000 per annum, not including the enhancement of land values, but including the fixed improvements upon land. With the activity prevailing in 1916, the enormous excess of exports over imports, and the very complete employment of our people and our industries, the net gains of this year must be considerably in excess of this amount.

Dr. Willford I. King, of the University of Wisconsin, in his care-

ful discussion of the subject, estimated, on the basis of census reports, that in 1890 the gross income of the people of the United States was $12,082,000,000; in 1900, $17,965,000,000, and in 1910, $30,530,000,000. These increases were due in part to rising prices, but the physical equipment for production has been enlarged and improved very rapidly.

These are large figures in comparison with the estimates for other countries. The gross annual income of Great Britain was estimated before the war at about $12,000,000,000, and the annual savings at about $2,000,000,000. Dr. Karl Helfferich, in his study of the wealth and production of Germany, made in 1913, estimated the gross income of that country at 40,000,000,000 marks, or about $10,000,000,000, and the annual savings, exclusive of unearned increment, at 8,000,000,000 to 8,500,000,000 marks, or $2,000,000,000 to $2,125,000,000. He estimated the total wealth of Germany at that time at $75,000,000,000, as compared with about $50,000,000,000 in 1895.

## CAN THE UNITED STATES LEND ABROAD

It remains to be considered how much of their income the people of the United States can afford to invest outside of this country. This is still a developing country; its population will continue to grow rapidly, and this will make it necessary for a large share of its savings to be devoted to new enterprises at home. There is not, however, the same opportunity to do primary development here that there is in many other countries, and the question of how much we will invest abroad will depend for answer largely upon our inclinations. That we can spare an important amount if we want to do so is evident from what has been done since the outbreak of the war.

The merchandise trade balance in favor of the United States in the two years ended June 30, 1916, including silver, was $3,277,600,531. Foreign balances in American banks are much above normal, perhaps $300,000,000 larger. There would be, then, $3,577,600,531 in the aggregate for which the rest of the world has had, somehow, to make settlement with the United States.

The net importations of gold for the two years were $403,761,219. The balance against us on account of interest and dividends has been materially reduced since the war began, but probably has been

as much as $300,000,000 in the two years. It has been understood in the past that this income has been largely reinvested here. There have been special inducements to take it home during these years, but probably one third has remained, including what has been invested here in the foreign government offerings.

Foreign shipping charges upon American imports were estimated by Sir George Paish a few years ago at $25,000,000 per year, after making allowance for what foreigners pay to American shipping, and for the expenditures of foreign shipping in American ports. They have been greater in the last two years, probably double.

Remittances for gifts, savings and investments abroad were estimated by competent authorities before the war at $150,000,000 per year. They have been reduced, but probably have been $200,000,000 in the two years.

The expenses of American travelers, normally a large sum, may be estimated as counterbalanced by foreigners now living or traveling in the United States. These offsets, including gold, aggregate $903,761,219, and when they are deducted from the trade balance, leave about $2,700,000,000. According to the calculation this is the amount which must have been covered by loans and the return of American securities. The net amount of public loans to July 1, 1916, was about $1,100,000,000, and this would leave $1,600,000,000 to represent securities.

## FOREIGN INVESTMENTS HERE

The most definite information about foreign holdings of American securities and the amount returned to this country since the war began has been gathered by Mr. L. F. Loree, who addressed an inquiry to all railway companies with more than one hundred miles of road. The first returns covered the six months from February 1, 1915, to July 31, 1915, during which the foreign holdings of stocks, bonds and notes were reduced from $2,705,402,963 to $2,223,570,828, or in the sum of $480,892,135, par value. The second returns were for the year ended July 31, 1916, and showed a reduction during the year of $807,881,666, leaving $1,415,628,563, par value. He calculated the market value at the latter date as $1,110,099,090, and the market value of the purchases during the year and a half as $898,390,910. These figures are for railway

securities only, and do not include any held in this country at the outbreak of the war in trust for foreign owners, of which there were undoubtedly a good many. Nor do they include securities upon which payments were not being made, as ownership was traced through the income tax records. Moreover, they do not include the important amount of securities, particularly short-time notes which were paid off or re-purchased in the first six months of the war.

It has been the opinion of some people in position to be well informed that the foreign holdings in other American properties would equal the holdings of railroads, but the common estimates of them is not so high. The other holdings would include industrial securities, public utilities, municipal bonds, mining property, lands and city property, mortgages, etc. The distribution of public utilities, industrials and municipals abroad has no doubt been increasing rapidly in recent years. These investments, with a few exceptions like the stock and bonds of the United States Steel Corporation, would not, however, come home so rapidly as railroads, for the reason that they have not so ready a sale. They have come back, however, in important quantities.

All things considered, it is probable that our foreign loans and re-purchase of American interests during the last two years have been at the rate of $1,250,000,000 to $1,500,000,000 per year. This has been under conditions unusually favorable. The same exports in ordinary times would yield a much smaller trade balance. Our people would naturally rather buy seasoned American securities than they would foreign corporation issues. We are chiefly interested now, however, in determining to what extent our people have the ability to make foreign investments, and at the same time provide for the normal capital requirements at home. During the first year of the war, home demands were below normal. In the second year, owing to the high prices for equipment and construction, materials and scarcity of labor, they were below what they would be naturally in such a period of prosperity, but outside of railway enterprises the record of capital expenditures is high.

## Our Growth in Productive Capacity

A large part of the extraordinary earnings of industry in the last two years has been applied to an enlargement of capacity. This

is particularly true as to the steel industry, and in that case is directly traceable to the war demands, but nearly all lines of production have been crowded to capacity and have been putting profits back into the business. On the whole, despite high costs, our industrial growth has been kept up to the average of normal requirements, and doubtless is now exceeding them. Agricultural production does not keep pace with that of the manufacturing industries, but in the metals, for example, from the mining of iron, copper, lead and zinc, up through the conversion of the raw materials into merchantable products, the organization, plant and equipment is being rapidly developed to handle a much larger output than ever before. It is probable that by the time the war is over these industries will be in shape to supply the normal requirements of this country in their lines, and also a volume of product for export as great in quantity, if not in price value, as they are exporting now.

There may be some question about our ability to continue exporting agricultural products at the rate, in value, they have been going out during the war, but I have confidence that the work which is being done for the improvement of agricultural lands and methods will show results in the near future. If our agricultural exports are not maintained, it will be because a continued expansion of our other industrial interests makes a rapidly growing market at home.

Undoubtedly there should be very large expenditures upon our railways in the near future. A combination of influences in recent years has caused a decline in the value of railway investments, and railway facilities have not kept pace with the growth of traffic. Expenditures should be made on a large scale, with a view to the future, including a comprehensive treatment of terminals. The expenditures upon terminals will probably include large payments for land, but these do not lock up capital; only the outlays for construction involve the fixing of capital. These, although large, must be spread over considerable time; when we consider the enormous amount of work which the leading companies, notably the Pennsylvania, New York Central and some of the Pacific lines, have done in the last fifteen years, it does not seem probable that this record will be surpassed. These roads are not in need of the same outlays, but even they are crippled for want of a comprehensive system of terminals, including warehousing accommodations.

From 1900 to 1914 the capitalization of American railways, including debt, increased from $17,136,495,327 to $31,813,842,810, or at the rate of over $1,000,000,000 per year. All of these securities did not represent new capital, but in the aggregate they amount to less than the new capital expended upon the roads in the fourteen years. The premiums paid upon stock and bond issues, plus the amount of earnings expended for capital account, would exceed discounts, commissions and "water." After all of these expenditures, we have evidence that the foreign holdings of our railway securities one year ago were down to $2,223,500,000 par value.

The highest estimate by any authority upon foreign property holdings in this country was $6,000,000,000 before the outbreak of the Balkan wars. They have been moving in this direction ever since, and at this time $3,500,000,000 par value would be a liberal estimate. It is safe to assume that if the war continues another year, our loans and investments abroad will equal or exceed foreign interests in this country. This will mean that there will be no balance against us on account of interest and dividends.

## A Shortage in Labor Supply

The pace at which we can go forward with construction work in this country is limited by the available labor supply. Our supply of capital is increasing very much more rapidly than the supply of labor, and the effect is largely spent in an increase of wages and prices. When everybody already has employment, competition among employers attracts labor from one factory to another, or from one branch of industry to another, but except as stimulus is given to the introduction of labor-saving methods, and as labor is concentrated where the returns are highest, production is not increased. The industries of the cities have been attracting labor from the farms with the result that the cost of food is made higher for all. Obviously there must be a limit to this movement within a single country. The competitive field will broaden out to include other countries. As the cost of production rises here, the inducements for capital to find employment in other countries will be greater. If there is not labor enough here to man the new capital supplies, there is Russia where a vast supply of labor exists with a scarcity of capital; and China, where the situation is even more one-sided. The economic gains from the use of capital usually

diminish with the higher development of industry, because the fundamental changes come first; they accomplish more at a stroke than do the improvements upon them. It is only as capital becomes cheap that it pays to lower the railway grades and straighten the curves as we have been doing in the United States since 1898. These are the considerations that will determine whether we shall go on making vast capital investments to accomplish small savings at home, or send a share of our new accumulations to the more backward countries, where the economic results are greater. In the United States, according to the census of manufactures for 1914, the total number of persons engaged in manufactures was 8,265,426, and the total amount of capital employed was $22,790,-880,000 or $2,787 to each person. No other country has such a capital equipment; no other farmers in the world have as efficient implements to work with as the farmers of the United States. We have an all around equipment superior to that of any other country.

There is a sense, of course, in which we can always use all of our capital at home. This will be so if we are indifferent to the rate of return. If the returns are as good at home as abroad, nobody will advise going abroad. But with capital increasing faster than population, the law of diminishing returns is constantly operative, and the accumulations available for investment will decline until they are in equilibrium with the home demand. On the other hand, a people who go abroad for advantageous investments, and give a hand in developing the efficiency and wealth of other peoples, will find their own industries stimulated, and actually have more capital to invest both at home and abroad.

## CONCLUSIONS

I would repeat, then, that this question, whether we are in position to make extensive investments abroad is one of comparative opportunities and cosmopolitan education. We have ample capital to allow of our making extensive investments abroad. Our own capital equipment is greater per head than that of any other country, and naturally there are larger profits to be made in building up the equipment of others than in increasing our own. The chief obstacle to our making investments abroad is the lack of experience in foreign operations. We are not accustomed to distant investments. Even at home our investments are chiefly local. We have spread out

over a great country, every part of it has been developing, and there have been many opportunities for local investment.

Land with the improvements upon it has furnished the principal outlet for savings. The average investor in this country likes to be able to walk around and survey his investment occasionally. Considering the wealth of the country, the distribution of stocks and bonds among the people is not what it should be. Our financial fabric would be safer if bank deposits were less and the investments held by the banks were held by the people direct, but this statement must be qualified by adding, provided the people are qualified to select sound securities. An enormous amount of capital is lost annually in wildcat and blue sky schemes, because people are impatient of small returns and unable to discriminate among the investments offered. The popularity of land investments frequently causes inflated prices, with losses resulting. This country's ability to absorb securities would be enormous if the great body of the people was educated to that class of investments, and acquired the habit of buying them and saving for them.

Our ability to increase our foreign trade depends largely upon our willingness to assist our would-be foreign customers in their development. If we will build railways in South America, or China, and take stocks or bonds in payment, we can have all of that kind of work we want to do for years to come, and have the subsequent orders for locomotives, cars, and other equipment and supplies. But the contractors and manufacturers cannot take these securities in payment for their work. They must have money to pay for the labor and other costs. The American investor must do for our manufacturers what British and German investors have done for the manufacturers of those countries; they must accustom themselves to foreign enterprises and make a world's market for securities.

It goes without saying that this cannot be done in a day, or a year. Nobody would advise the American investor to rush out, fired by a patriotic impulse, and buy the first foreign bond that is offered. The business must be handled with exceeding care, and only upon personal knowledge or through experienced and responsible agencies. There is not the slightest danger that the business will grow so fast as to restrict necessary American investments. There is no probability that our foreign investments will increase

fast enough to take up even ten per cent of our increasing capital accumulations. Argentina has been growing faster than all of the rest of South America, and total capital investments in Argentine railways since 1900 have averaged only $48,000,000 per year. If Mexico was a safe field for investment, capital would flow over the border like a flood, and its movement would give such a stimulus there and here, and the two countries would react upon each other so rapidly, that we would never miss what we sent. Cuba, under the benign influence of the Platt amendment, is receiving such a flow, and the benefits are mutual. The difference in capital accumulations when our industries are driven to capacity as at present, compared with the gains of ordinary times, would be enough to put us in the first rank of lending nations.